

**Before the
Federal Communications Commission**

In the Matter of)	
)	GN Docket Nos. 09-47,
National Broadband Plan)	09-51 & 09-137
)	

REPLY COMMENTS – NBP PUBLIC NOTICE NO. 30

The Communications Finance Association (“CFA”), by its counsel and in response to National Broadband Plan Public Notice No. 30 (“PN-30”),¹ hereby submits limited reply comments regarding the National Broadband Plan (“NBP”). For its limited reply comments, CFA states as follows:

Background

CFA is a voluntary organization whose membership extends to providers of capital and financial services to companies operating in, or seeking to enter, both the telecommunications and media sectors of the communications industry. CFA’s mission is to recognize and address, in appropriate forums, the various business and regulatory issues affecting the communications industry’s access to capital, both debt and equity. CFA’s members and their affiliates are, and have been, involved in the financing of the construction, acquisition and operation of numerous telecommunications and media facilities and systems licensed by the Federal Communications Commission (“Commission”).

Reply Comments

From the various comments filed in response to the twenty-nine previous NBP public notices, it is apparent that one of the Commission’s most difficult

¹ DA 10-61, released January 13, 2010.

broadband tasks will be to assure that its resulting broadband plan accommodates the continuing and critical needs of areas of low population density; America's many and extensive rural areas. Most commentators on the subject acknowledged that the main obstacle to broadband deployment in rural areas is the combination of the high costs associated with providing service to such areas and the low revenue projections for rural systems. These combined factors make it extremely difficult for any of the broadband systems proposing to serve the nation's rural areas to attract necessary financing from the industry's traditional investors and lenders.

In light of the demonstrated reluctance of "money center" institutions to provide equity or debt financing for broadband deployment in rural areas, the Commission should consider whether a focus on broadband "localism" for rural areas would incentivize rural residents and businesses to essentially invest in themselves. The Commission long has recognized the importance of localism in the context of broadcasting, and has promoted local programming as a critical element of service to a broadcaster's community of license.² CFA suggests that, with proper, locally focused incentives, a rural area's financial resources, limited though they may be, will coalesce around a program designed to bring needed broadband service to that area.

As recognized in previous NBP comments, rural areas will not be able to maintain their populations or their economic viability unless they have access to broadband service. Accordingly, the self-interests of the individual residents, local businesses and governmental entities in those areas will compel them to

² See, e.g., the Commission's localism webpage (www.fcc.gov/localism).

devote all available resources to establishing and maintaining any reasonably obtainable broadband service; a service they certainly recognize as being critical to their very survival. For its part, the Commission must be prepared to minimize the financial burden associated with providing broadband service to rural areas, even if that means the Commission must accept reduced proceeds from its auctioning of broadband spectrum.³

Historically, the cost of acquiring any of the spectrum blocks offered through the Commission's auctions is beyond the reach of anyone interested in providing service to specific rural areas. Auction prices are determined by first projecting costs and revenues for an entire market, and then setting a "per pop" average for that market.⁴ Because the costs of providing service to their low density target areas will be much higher, and because the revenues from those target areas will be much lower, bidders seeking to provide service to rural areas will not be able to afford even CMA-sized spectrum blocks. Simply put, the market definitions previously used for spectrum auctions result in spectrum costs that are prohibitively high for prospective rural service providers.

To make spectrum attainable by rural service providers, the Commission should create a new category of markets. Such markets should be relatively small, and should not be defined by political or other artificial boundaries. Instead, those markets should be determined by cultural and economic "affinity", much like the economic areas used for past auctions. In order to obtain optimal

³ Even if it provides mechanisms by which auctioned spectrum is more readily available for rural areas, the Commission should not diminish the availability of "unlicensed" spectrum.

⁴ And, unfortunately, those per pop values only increase when a bidder has decided to forego providing service to those high cost, low revenue areas of a target market.

results when setting market boundaries, the Commission should solicit and utilize the input of civic and business organizations and local government entities throughout the process of identifying and defining such markets.

Inevitably, the auction prices of smaller, more tightly defined rural markets will be lower, both on a total market cost basis and on a per pop basis.⁵ And, by substantially lowering the price of one of the major cost components for rural spectrum-based systems, the Commission will significantly reduce the cost of providing broadband service to rural markets.

The Commission could provide further incentive for local investment in rural broadband systems by providing substantial bidding credits to groups comprised of local principals. Such bidding credits should be applicable only to a bidding group's specific market, but should be in addition to any other bidding credits to which the group may be entitled (*e.g.*, small business bidding credit). Even though a group may be otherwise qualified to bid on markets other than its "home" market, the local bidding credit should not be available for use in other markets.⁶

By encouraging the involvement of local investor groups, the Commission effectively obtains assurances that local broadband systems will be well-suited to the needs of their markets, and that the systems will be put into service on a priority basis. In addition, the continued viability of such systems will be

⁵ CFA believes that the removal of low density rural areas from previously defined market areas will have minimal impact on total auction revenues. As the removed areas and populations will be the high cost, low revenue ones, the per pop values of the retained market areas should be increased, probably to levels sufficient to offset the population losses.

⁶ While the Commission should guard against trafficking and unjust enrichment by groups utilizing local bidding credits, it should provide sufficient leeway for post-auction reorganizations involving similarly qualified licensees seeking to achieve economies of scale through roll-ups or other types of consolidations.

enhanced, if not absolutely assured, because local users will be attracted to systems that are locally owned and tailored to local needs. Further, local lending institutions, and locals groups' principals, almost certainly will be more forthcoming with the financing necessary to sustain their own broadband service.

By providing themselves and their areas with the broadband service on which their very survival will be dependent, local groups will effectively obtain enhanced returns on their investments; returns that may be intangible, but extremely valuable.

Conclusion

By reducing spectrum acquisition costs, a major element in total entry costs, and by putting licenses into the hands of those with the most to gain from the provision of local broadband service, the Commission maximizing the chances that rural areas would receive effective broadband service at the earliest feasible time.

Respectfully submitted,

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